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REMARKS

There is a lot of potential "I told you so's" in this transcript. It make the next two weeks all that more important as we do our briefing papers.

[redacted]

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Senate Supplemental Plan

14 MAR 1984

MEMORANDUM FOR: Director of Personnel

FROM: [redacted]
Liaison Division
Office of Legislative Liaison

STAT

SUBJECT: Briefing by Senate Staffer on Supplemental Retirement Legislation

Attached is a near-verbatim transcript of the briefing session held in the DDA's conference room on the morning of 15 February 1984 on the subject of supplemental retirement legislation. The briefer was Mr. Jamie Cowen, Special Counsel on the Subcommittee on Civil Service, Post Office, and General Services, chaired by Senator Ted Stevens (R,AK). Mr. Cowen is the Subcommittee staffer responsible for generating supplemental retirement legislation for Senator Stevens.

[redacted]

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Attachments:
As stated

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Good Morning! In regard to the design of the new retirement system, I'd like to talk this morning about what exactly we're doing and why you all should be thinking seriously, now, about your supplemental retirement requirements, even though our Committee doesn't have direct jurisdiction over the CIA. In this particular area we on the Senate Governmental Affairs Committee will have a lot of influence over whatever happens, and therefore our actions will have a lot of influence over your supplemental retirement program. I'll also address why it will be important to you, as current workers, to design a new program, and why it will be important to try to get a handle on what we're doing, of getting off to a quick start, in other words, of getting involved now in some of the design work, of working with us, and with the Intelligence Committee, and so on, of getting an idea of exactly what you want, and how to actually implement that. I would then like to touch on some of the specific issues involved in what may happen in the enacted supplemental retirement system. What I'd like to do first, though, is distribute this article for your benefit. It's something that I wrote in the Federal Times last spring, on designing a new retirement plan for the federal government, and certainly it goes into a lot more detail than I will today as far as the various types of issues that are involved in the design of a new federal retirement system.

First of all, I'd like to talk about exactly what we're doing on the Senate Governmental Affairs Committee staff, describe for you what our goals are and then move on from there. One of our major concerns is the whole federal retirement arena, because it is such a volatile and emotional issue for federal employees. We feel the most important thing is to try to get a handle on exactly what is provided elsewhere in this country in the way of pensions and retirement plans, you know, private as well as public ....all the various types of benefits and beneficial provisions. You know, everybody has their own set of statistics, unfortunately, and they go from one extreme to the other, such as that the federal retirement system, at one extreme, is the most generous system in the entire world, to the fact that the federal system is kind of just average and all the rest of the benefits are so far behind, to the other extreme that the government is actually behind the rest of the country. Because of this, we have asked our support agencies, the GAO, CRS (Congressional Research Service),and the CBO (Congressional Budget Office), to do a lot of technical work for us. The GAO is putting together some of the most exhaustive work ever attempted as to what exactly is provided outside of the federal employment sector in the way of retirement programs. That includes the basic pension that employers provide, the other additional add-ons like thrift plans, profit-sharing, and so on. In other words, they (our support agencies) are determining what the typical vesting period for employees is in their jobs, what the types of disability arrangements are that are provided, what type of survivor arrangements are provided, and the like. We've asked such retirement age questions as, do you get a reduced annuity if retirement is early, what kinds of reductions are effected, and the like. So, we've asked for some really exhaustive data. They've done a lot of work already. A lot of the data has already been provided to us on a preliminary basis and much of it has really been very revealing, although I don't want to get into that right now, but it is revealing.

Then we're going to take the source data that we have and work with the Congressional Research Service in designing about five to seven options for a new retirement plan for the government. The purpose of this would be to publicly distribute these options to the federal work force and other interested parties to see exactly who likes what and for what reason, and just kind of get it out in the open early on. Hopefully we'll get this done in the late Spring. That part is rough.

CBO is looking at other specific issues, like private investment management, that is, the private investment of federal funds. One of Senator Stevens' views is that some of the money that has been held in government bonds all these years for the retirement fund probably should be invested outside of government, not only for the benefit of the employees but for the benefit of the economy as well, for obvious reasons. So they're looking at management techniques, they're looking at budget impacts, insofar as that goes, and so on. That's one track that we're taking.

The other track is that we have set up five special federal pension forums in the Congress. The first one was held in December, and the next one is tomorrow, in which we bring in experts, about five or six at a time, experts from the private and public sector, on pension development, who make presentations as to specific issues involved in pension design. And then we have a number of participants. Tomorrow we have well over a hundred people, participants who will include major corporate figures, private and public labor union people, think-tank individuals, consultants, and individuals from the insurance and banking industries. After each presentation is made, the speaker or moderator will open it up for discussion. Anyone may comment or ask questions, because the purpose is really one of education for all of us. While everybody in the federal government is very accustomed to, and familiar with the federal retirement program, they are very unfamiliar with the private pension area. In fact the level of expertise in the private pension area in the federal government is phenomenally terrible, and one of the things we feel is so important is to get the federal group educated in what exactly is done outside (in the private sector), get them used to the terminology, to the concepts, and maybe see if some creative things can be done for the federal government that are being done on the outside. We had a very successful forum in December, and we think we have a successful one tomorrow. To give you an example of what is going to be done tomorrow, we have someone who is going to lead it off with a development of the retirement income system in this country, kind of going through history, what is provided, why it is provided. Then we're going to have a three-person panel presentation on specific design issues, like retirement age, indexation of the benefits, investing, and so on, in which we'll have someone from DuPont speaking from the corporate position, someone from the AFL/CIO speaking from the union position, and a major consultant speaking from a consultant perspective, and try to give us an overall perspective of where we .... And then we have a very interesting panel right after that, which is made up of the Pension Administrator of the state of New York, and the head of the teachers' union from New York, to describe what has happened in the state of New York. They (New York State) have set up three completely new retirement programs in the last twelve years, all because of serious financial problems. In fact, they have gone through what Maryland is going through right now. If you've been reading the papers you know that all the natives are going wild because the Maryland system is very costly. New York has already gone through this experience three times in twelve years, so we think it is going to be very informative for us because we'll be going through something very similar next year, as to how they approached it, and how their objectives have been met. Again, the main purpose of these retirement forums is educational, to get people accustomed, to try to get everybody in the same room (so to speak), as well as getting them involved in the development of the legislation so that when we finally do get to the legislation, at least there will be a foundation of understanding. I wouldn't say agreement, by any means, but at least a foundation of understanding the issues so that we'll begin to deal with the issues of supplemental retirement on a much higher plane than many other issues that we deal with in Congress. We will have each of these retirement forum proceedings printed so that when they are finished they will be available to you for your review.

The big question is why is what we are doing in the Senate going to be important to you in the Agency. As an aside, I have an arrangement with the Federal Times, to write four articles on designing a new retirement program over the next couple of months. Some of these issues will be discussed there, probably in greater detail, but the real question this morning is why is it important to you in the CIA. The first thing is that it (the new supplemental retirement program) may very well have an impact on the current retirement program. Senator Stevens has no intention of changing the current system at all. His view is that we ought to set up a very attractive new alternative system, and allow current people to join it if they want to, but leave the current retirement system (Civil Service) alone. What I have been telling people is that while that is what he wants, and that's what we want, I do not think that we will survive the next Congress without seeing some major changes made to the retirement program as it stands now. Part of the impact that this new plan will have on the current system is if the new plan is significantly less generous than the current program, and it may or may not be, but I'm sure there is going to be pressure to make it less generous, a lot of pressure, that there will be attempts to conform the current retirement program to the new program, at least in its overall value, so that there's not a dual plan, with two sets of benefits for two types of employees within an Agency. And that could have a very serious impact on current employees, unfortunately. It's not fair, either in our view or in the Senator's, but you have to face it realistically for what very well may happen.

The second thing is that a retirement plan in many ways drives the demographics of a work force. As you all probably know, you at the CIA have your special plan (CIARDS), that I am only sightly familiar with, that has certain special features such as early retirement and a very generous package, that allows you to get your people in for a full career and then out at a reasonably early age in order to keep the juice in the blood, so to speak, to protect against early burnout. Your plan in some ways is already designed to suit your unique demographic work force requirements. But in a greater sense, it is true that one can devise and design so many types of retirement plans to get the type of people that you want in a work force. To give you an example, if you're looking for a long-term career employee, the type of package you should really be looking for is a late-vesting package. In other words, a person doesn't vest until later on , say ten years into their career. Five years is the vesting benefit for the government now, but ten years is a more common package in the private sector, because you don't want people in and out of your work force, you want people to stay, not actually receiving a benefit, but being eligible for one, at least until they've been in for a while. You will probably want a rich, or fairly rich benefit at a specified retirement age. You probably also want a weighted benefit, one that is weighted towards the later years of service. Now, the Civil Service System is designed that way but the CIA system, I understand, is not. It (CIARDS) is a straight level system. But there's a lot of different kinds of things that you can do to weight the benefits in later years to try to keep people on until they're right at the point where it is marginally better for them to retire.

Another means of retaining career employees for a longer career is by cutting down on portability. The current system (CSRS) is totally non-portable so there has never been a problem there. Social Security, on the other hand, is a completely portable system and so right from the beginning in the new supplemental retirement plan you are going to have a more portable system. By virtue of the fact that Social Security exists wherever you go in this country now, you are going to have credit towards some retirement benefit. Another means of retaining career employees is to pay them a little bit less up front but have a richer retirement benefit. Again the Government is tentatively that way over the time and that tends to keep career people longer. If you have a work force in which you want more turnover, then you want more portability. You may also want to have benefits such as a cash-out arrangement, perhaps a thrift plan, which allows employees to cash out when they cease their employment, without waiting for retirement, because this benefit will increase turnover to a certain extent. If you want upward mobility in your work force, then you want some type of a subsidized early retirement feature.

The government is one of the few systems in this country which provide a full unreduced benefit at an early retirement age (by 55). Most firms, which some of the GAO work has already pointed out, in fact upwards of 90 percent of the firms in this country provide early retirement at 55, but a vast majority of them require a reduction in their basic annuity at an early retirement age. However they don't necessarily actuarially reduce that benefit. Other words, when I mean actuarially reduce it, if your normal retirement age is 60 and that is the point at which your retirement plan calls for them to receive a full benefit, but you want to let them retire at age 55 instead, if you actuarially reduce their retirement benefit, that means what you want to do is reduce it so that there is still a total retirement income from 55 to death that will be the same as if they retired at 60. So you reduce the employee's retirement benefit by the amount that is actuarially projected, currently about 8 percent a year. Most firms do not actuarially reduce the benefits. Rather, they subsidize benefits to a certain extent. In other words, they reduce it by two or four percent a year which gives an incentive then for the employee to retire early, because they will get more retirement income over their lifetime by retiring early than they would if they retired later on. If you, as an employer, want upward mobility, in other words, people moving on at an earlier age, you want to subsidize early retirement or, even if you are a government employer you can provide a fuller retirement and that gets them out. You may also want a situation which some in the government have, such as the law enforcement agencies, that is a benefit that gives you a high level benefit in the first number of years, maybe the first 20, at say 2 1/2 percent a year, and after that you reduce the benefit to 2 percent a year. So that is, again, an incentive to get people out at a certain age and moving on.

Now, the question is what relationship is this going to have on your Agency and the Agency's retirement program. Terry and I have talked about this quite a bit (i.e., some strategy and some impact that this may have). As you all well know CIA is covered under both retirement plans and I guess your employees have a choice to take one or the other. We in the Governmental Affairs Committee have jurisdiction over the people that go into the civil service plan insofar as where the benefit package goes and the Intelligence Committee (SSCI) has jurisdiction over the special CIA plan. And so the question that comes up is how are you going to achieve getting through what you want to get through at whatever point in time you feel is necessary to get it through and so on. Terry and I have talked about this quite a bit. My own view is that probably the best alternative for this Agency is to try to become a subpart of whatever major retirement bill that we move through the Senate. The reason is is that your Agency is going to want a number of special features. I understand that you have certain cover requirements and the like that are fairly obvious. But you will also want more attractive features because you have more attractive features now in your plan and it is more attractive than most of the rest of the Government. If you want to maintain it, then the biggest mistake that you could make would be to try to move a separate bill through the Congress providing, at least by comparison, a very rich retirement benefit for CIA employees. The last thing you want to do is be isolated, in separate, parallel legislation, with a nice fat retirement program. The first thing that is going to happen to such legislation, regardless of the sponsor of the bill and regardless of the agency or department involved, will be the last thing that happens, and that is nothing. It will die because, by comparison, it will be far too generous. The equity of the issue will be immediately lost on the Senate. It doesn't matter who you are, you are going to get lopped off. My suggestion, therefore, is that you move with us as part of the bigger package. Everybody is going to be focusing on the big package (i.e., the governmentwide CSRS replacement or supplemental retirement program) and the CIA, as I am suggesting, would only be a very small part of a much larger moving train, and probably almost totally out of the limelight or main focus of attention, along with the few others in a similar situation like law enforcement and fire fighter personnel. In this way, some of what you might want to get could be accomplished that way which would not be accomplished if you isolated your package to send through the Congress. I am afraid that everyone's initial reaction would be to compare proposed benefit levels, and your's would be so far superior to the rest of the government that people's emotional reaction would be to say ..."no way can the CIA be that special" or the like, and you would lose almost before you got started.

Now, Terry has told me that you have hired and you are working with Ed Hustead of Hay Associates, to help you forge a range of supplemental retirement plan design features. I know Ed very well. He is probably, if not the best, certainly one of the best in the business of retirement planning and probably the most expert actuary in the country as far as the government goes. We have worked with him a great deal but I have a few suggestions which might be very helpful in accomplishing what you want. I think the biggest mistake that you can make with him, especially using his expertise, is to say to him that you want five or six options for the type of retirement plan that could be provided for CIA and, upon receipt of them from Ed, select any of them and develop a plan to run that selection through the Congress. My own view is that would be a very serious mistake to make, not only because it would work to your detriment on the Hill, but because it would not be using some of Ed's abilities to the fullest. The reason is because the last thing that I think that you want to do is to try to move through the Congress a type of plan that is completely different from the governmentwide plan that our Committee takes to the floor of the Senate. In other words, let's say we decide to move through ......, let's give you an example, I am not saying that we would do this and probably won't, but lets say that we decide to move through a major defined contribution plan like Senator Stevens introduced during the last session of the last Congress, with some type of a thrift plan on top of it, and you (in the Agency) have already decided that the best program to serve the Agency's requirements is a defined benefit plan. Well, the last thing that you want is something that is so completely different from the proposal for the rest of the Government that it can be easily looked at and picked apart, if for no other reason than it is different from the governmentwide plan. Then you are told no, in my hypothetical example, as your bill is starting to move through Congress. You now would find yourself in the dark with no viable legislative proposal, able only to try to append yourself to the governmentwide plan that is already moving along and has its own momentum, in some way;...not a very attractive situation to find yourselves in.

Alternatively, my suggestion is, first of all, for the Agency to determine your retirement objectives or requirements as an agency. In other words, you need a certain retirement age. For your purposes you probably need long term career employees and several features that we have already discussed. You need to determine the types of people you want to be in your system. Obviously,you go out and look for a certain type of individual to employ. These concepts need to be built into and can be built into a retirement plan. Is your expectation that when a person retires early from the Agency that they are going to be able to live fully at that income level in retirement or is your expectation that they will require some sort of additional income from some type of post-Agency employment to supplement their Agency annuity until they reach social security age or something like that. These are the kinds of objectives you should focus on, and then go to Ed and say Ed, look, these are our retirement objectives/requirements, and I want your firm to put together five or six methods, completely different methods, to achieve these objectives. Because then what happens is, to give you an example, let's say we have a defined contribution plan like I said before that moves through the Congress. Well, just because we have a defined contribution plan does not mean that just because current defined contribution plans in existence inherently mean increased portability, increased turnover, and the like, it does not have to be that way. To give you an example: there are some types of contribution plans, in fact the country's largest defined contribution plan which the TIA/Crest System in New York. It covers all teachers and professors in New York universities, covers about 350,000 New York employees, and so on. They are a non-typical, atypical defined contribution plan in that they do not allow employees to remove their contributions at all until retirement age. Most contribution plans let you cash out early or roll over into another plan; but they don't let you do that at all. What they say is if you leave the university or you leave the profession altogether, you can leave the money in, but you do not get it until 62. It will continue to accrue interest, but you are not going to get any more contribution under that plan and we are not going to let you contribute to that on the outside unless you are actually working for one of our sponsored organizations.

So just because you have a defined contribution plan does not mean that you have lost your long-term career employee objective. You can still have it, and still build in certain features like that. Another example is, that Ed can build a designed benefits package in which there is what is called "significant backloading", as I talked about a minute ago, in which more weight is given to later years of service so that someone, let's say, has gone and has worked for twenty five years in the Agency at two percent a year so he would retire at fifty percent of his salary. Well, what you could do in the same way is you could design a program in which you will still get fifty percent of the salary after twenty five years but if you leave after fifteen years, you won't get a proportional amount. In other words the accrual rate may be 1 1/2 % in the first ten years and 2 1/2 % in later years so that it forces the employee, if he or she wants the lucrative retirement, to stay on in the later years, and then to end retirement credit there, and/or reduce retirement credit thereafter, etc. You can ask Ed to provide a defined benefit plan with a thrift plan which, again, doesn't allow people to cash out. It lets them keep their money in the retirement fund.

If I were in your shoes, and I were doing what you are doing, having Ed Hustead's level of expertise available, I would present him with a listing of retirement plan objectives/ requirements (i.e., these are the types of employees that we want working for us, and these are the types of employees that we want to be career employees, etc.) and I want you to put together five retirement plans for our consideration....

Director of Personnel interjection: Essentially, that is what we have done, isn't it? We had a meeting just like that with him about the middle of January in which he tried to make us a bit smarter on this subject, and I think out of that we did tell him to establish four or five goals like you are talking about. Now, I hope that is what is going on in my office, that the wheels are turning, and I have a vision of Ed sitting in a room filled with machines, pushing buttons, and all this data pouring out. I am somewhat reassured in hearing what you are saying, that we have probably taken the first step essentially down the right path, although there are a couple of interesting ideas that I have heard here that I hadn't thought of, such as the means for getting people out of the system by dropping their annuity off quickly, at a certain age. That is really interesting. I'm sorry that I have to leave, but thank you for your time and your thoughts. These peoples remaining are the ones who will most benefit from your remarks. Thanks again.

Jamie Cowen continues: The main thing, in other words, asking him to do those things so that when we're (in the Senate Governmental Affairs Committee) moving a bill through, you can just link in whatever you've got with exactly what we're doing. Just merge it right in there with some of the objectives that you all have need for. I told Terry before that we haven't done a lot with the intelligence agencies, but in my experience, the Senator will often defer to specific interests like yours. He is obviously very intelligence-minded. He is the Chairman of the Defense Appropriations Subcommittee and so he has a great appreciation for some of the needs as far as this goes and I think he will be very willing to listen and to be open to some of these other things but the primary importance from you is to at least have the overall structure of whatever you want ready to go to merge into whatever we've got no matter what kind of design we've got.

Question: Jamie, give us a sense of the timing for that need, at least in a gross sense.

Jamie Cowen: Sure; We will have a bill ready as soon as the elections are over, basically. If we have a post-election session, then the Senator will drop a bill in at that point. If we don't, then we'll put a bill in early in 1985 as soon as the Congress reconvenes.. The bill will be enacted presumably before the end of 1985. That's when we have to. That's the goal that we have to meet under current law. But we are doing all the work right now. The work is done now or will be done by then and so your involvement with the Hay Associates in getting ready is very timely at this point, but I would say that you need to get rolling with us. We will be happy to work with you and the Intelligence Committee, and maybe you can work out some type of combined strategy as how to best approach your needs from a Congressional point of view, with how to best serve some of your interests. That is essentially the timetable that we are looking at. The main thing that I would suggest as far as an overall strategy for you all is for a type of planning is to truly be creative and ask Ed to be creative. They've got a tremendous capability in that firm There are a lot of things that I would fail to think of, but they could come up with that could really truly meet some of the objectives that you all have.

Now, the last thing that I do want to talk about is some of the very basic issues involved in the retirement plan. Things like what we face as far as the budget goes, questions of indexation, retirement age, and the standard of living, etc. I'm not sure what our remedy is. The problem that we are facing is a 200 billion dollar deficit and that means pushing a rich employee benefit package through at that time is going to be an extremely difficult thing to do. The whole cost issue of the retirement plan is probably going to be, if not the major issue, it will certainly become the predominant issue once we get it past the " Sen. Stevens type-of-individuals" who are concerned about the structure of the plan and how it meet the employees' objectives. Once we get beyond those people who are specifically interested in civil service, everybody else's mind will be geared towards cost and that's what we have to be very wary of.

The cost of the current system, and Ed may already have already told you this, is currently considered to be 36% of the payroll, of which 7% of that 36% is employee contributed. So you're looking at the government contribution of 29% of payroll. The average private sector cost is extremely elusive. You've heard a lot from OPM and the Chamber of Commerce saying that the average private sector retirement plan cost is around 17%. That 17% is like and apple and orange figure, basically. First of all, that figure does not include any capital accumulation plan. Of the BLS study that the GAO has done, of the 1500 firms they have surveyed, 75% of those firms in addition to having a pension program also have a capital accumulation plan like profit sharing ,a thrift plan, a 401k plan, or the like. The 17% of the payroll does not include that figure (capital accumulation cost) at all. So immediately you've got an increased figure. A second figure, that's extremely fascinating and somewhat technical, as I was talking to the people over at the breakfast about this, is that when you're costing out retirement program, what goes into that cost are certain economic assumptions. One of those is the interest rate. In other words, your rate of return on investment, because all money (contributions) goes into some type of investment yield. The Civil Service Retirement Program uses one interest rate assumption and the private sector generally uses one that far exceeds that, and to give you an example, a 1% change in the interest rate assumption used in a cost will change the cost of the program by 25%. A 25% increase in the cost by one interest rate assumption change of 1%. In the government we use what is called a 1% real rate of return. on investments. The private sector generally uses close to 2%, and so you're saying that the government program is 29% of payroll and the private sector 17% of the payroll. They are using the 2% real rate of return and we are using 1% and if we use the same real rate of return factor, either the private sector system will be far more expensive, or the government system will be far less expensive. They are a lot closer in cost than it really appears. But these are going to be some of the problems that we're going to have in moving through a bill.

It is most likely, as I said before, that even with that understanding, that we will not be able to move a retirement bill through that's as generous as the current system is now, government wide. I'm not sure what will happen to special agencies, like your agency and its needs, but right now the average government retirement, at least early age, is fifty five with full retirement, and your agency is fifty. If the government retirement goes up to sixty or sixty-two years for a full a retirement, it's going to be hard to hold age fifty for your special retirement system. It definitely will be hard to hold fifty in this agency. There may be a way to, probably is a way, to get an age fifty retirement, maybe with somewhat of a reduced benefit, at that point. There's a lot of ways to do that, but to get a full benefit at fifty when the government goes up to sixty or sixty-two, that would be hard to believe in. You know, and I can almost guarantee, that the new government system is going have a higher full retirement age because if they've just moved social security's up, and that covers a hundred million people or whatever, you know for the two million or three million employees that are covered by the government, the retirement age is probably going to move up, from experience.

The second issue is indexation of benefits . There's two issues in indexation. One is the indexing of the benefit while the person is working. The second is indexing after he/she has retired. The gross retirement indexation is the one everybody looks after, but it is the pre-retirement that is actually more important to the workers. What I mean by that is, right now the federal system is very highly indexed pre-retirement. In other words, your retirement is based on your high three years of salary. And so what that does, is, obviously your high three years of salary are always moving up because of wage inflation, in other words, moving up in your career. For instance, if your retirement benefit was based on your average salary over your career, your benefits would be substantially reduced because, you know, maybe $30,000 today was $10,000 fifteen years ago, and some of you here may have been in that ballpark, so the last thing you want is $10,000 in that little increment.

Now, the private sector generally does index the benefits pre-retirement. The most common way to do it is your high five years, not the high three. There is some high three, and that is most likely what will prevail in whatever system comes up in the new plan, that is some type of pre-retirement indexation. Whether it is high three or high five is uncertain, but at least it will be geared towards the later years of service, and basing your benefit on that. The post-retirement indexation is going be a far different ball game. That is an issue that is probably almost guaranteed to be changed, government wide; not just civil service, but military retirement, everybody. That's by the far most expensive part of any retirement program, the automatic indexation at the CPI level of the government. In fact, it's one of the very few in this country that does. Really, in the area of indexation, it's the one place where the government truly exceeds that of anything in the private sector. Many other private sector firms have better benefits at retirement age than the government, but when it comes to indexation, the government far exceeds it. You know, to give you an example, we had GAO do some really interesting work for us as far as comparing retirement benefits with certain and specific types of firms. One of the things they did was to take what is known as the Wyatt Study, which focuses on the top Fortune Fifty firms in the country. What they did is they put together a typical employee benefit program. Almost all those firms include a thrift plan. A typical employees who uses the thrift plan to the maximum retires at any age and so on and it shows that, on the average, at almost every age in service point, that the people in the tops of those firms did better than the federal employee in almost every single point. It's amazing. And guess who was in that top fifty, W.R. Grace and Company. I thought that was very interesting. But again, most of those benefits are not indexed after retirement, not fully, not like the government system is. And maybe there's some type of a trade off that can be arranged for government employees.

To give you another example of things that could be done creatively, let's say we put together a defined benefit package that may include a fairly rich thrift plan or something, or a 401k plan, or something like that, in any event a savings plan where you contribute a certain amount and the government contributes a certain amount and you put it away in some private investment thing and then you retire. Well, a lot things could be done with that. First of all, social security's indexed so you've already got that indexation issue out of the way. You might have your underlying pension, the second tier, that may be indexed too, but the third tier would not be indexed because that's the thrift plan. And yet, because that money has been outside in private investments, presumably those investments will be achieving the equation rate or hopefully better which most of the time they do except during weird times like the past seven or eight years. And so those investment earnings on that money should replace the loss of indexation after your retirement. In other words that should cover that period, at no cost to the government. There's no cost to the government for that money out there, but that again is a way to offset some cost to the government but still retaining the benefit to a certain extent. There are various ways it can be done and still lessen some of the impact on the government, particularly future cost, which is what indexation comes down to.

Now on the issue of retirement age, I've alluded to it quite a bit. We've noted that basically the predominant full retirement age in the private sector is about sixty two. That is where, at least, I would say about 60% of the firms we have done allow retirement at age 62 with full benefits, or sometime before. That is probably a good figure to use when thinking about what is going to be provided in the government. There are a lot of ways that could be changed or achieved. To give you an example, let us say, let's go back and let's say we have a defined benefit plan that allows someone to retire with full benefits at age 55. Now that is fine except members of that benefit plan are undergirded by Social Security and so that individual will not be receiving a Social Security benefit until age 62 at the earliest. So you could have a situation where you provide a full unreduced benefit at 55 under the retirement plan but it still not, in other words it will ride along reduced for seven years and then at age 62 it will pop up to a higher level and maybe that is possibly one way it could be done. Let us say we have completely replicated the current system as it is now as far as the generosity of benefits at age 62, but we allowed people to retire at age 55 like they do now with 30 years of service and with benefits based on the retirement program. Well, right now you get about 56% of your high three after 30 years. Well, with the Social Security-based plan, and you want that 56% to key in, at let's say, at age 62, then at age 55 even though you would not have a reduced benefit his/her benefit would probably be closer to 35% or 40% and then at age 62 when Social Security kicks in, it would then rise up to 56% and go on like that. That again is one way to approach the issue of retirement age in allowing the early retirement feature, even an unreduced feature for the civil service federal employees, but still would not provide a total benefit of the equivalent now enjoyed at age 62 with Social Security. Again, like I said before, if the Government retirement age is going to rise, it will hard to keep this Agency at the same level as it is right now, at least at a reduced level, but there are probably ways to keep it if it is reduced some. In other words, a few percentage points per year, if it is important to the Agency, for that purpose. Maybe there could be ways again to cushion that impact with the use of thrift plans or 401k plans. Particularly for higher income employees, the 401k plan could be a great cushion, especially in the later years because that is a tax sheltered thrift plan, basically, is what those kinds of plans are, where in the thrift plan, the employee is paying taxes on those contributions, where in a 401k plan he/she is not, that is, the contributions are made free of tax. The private sector is falling into this plan head over feet. Almost all the plans that had thrifts are all going to the 401ks and so on for the tremendous tax features. Basically, the government is paying for their employees' retirement benefits, is what is really happening. It is an interesting thing.

The last thing I really want to discuss is specifically the whole issue of where you want your people to be when they retire. In other words, the goal,.. I will be talking about this in the first article I am writing for the Federal Times... the goal of the retirement plan should be to maintain a retiree's pre-retirement standard of living into retirement, so that they do not take a substantial drop. For most people, that can be done through a retirement plan at a reduced benefit, because most people retire, they pay off their mortgages, the kids are out of school, the kids are gone, some of the expenses are gone and so instead of having to pay them 100% of salary at retirement, you can pay them 70% and still their standard of living remains unchanged. However, the earlier the retirement age, the much more difficult that that is going to be. Again, it is going to be a very serious problem for some of your people, particularly if we are looking at any kind of retirement where there is going to be somewhat of a reduced annuity at an early age. It is going to be very hard to keep these people at a standard of living that they are accustomed to at age 50. All I know is that when my parents were at age 50 I was still in college and they paid my way. If my dad's income would have been reduced by 50% I would have been working while going to college. That again is the major factor, but that should be a goal in the system. It may be very difficult in this instance, particularly, if we count on early retirement age that should be the goal. Again, there are creative ways that can be used to try to cushion and bolster that kind of situation.

That is where I will leave you now. I hope that I hit on all the main points. If you have any questions or comments.

Question: "I have a couple of questions--Concerning the research effort is now and your forums, and your schedule is into summer, May? What is your last one."

ANSWER: The last one is in July.

Question: "July, OK. As you move along had you now or will you add some ground rules for everyone........the parameters of the system that you are talking about. In other words, are you looking at now, for instance, that whatever systems or options you come up with the provisions, some kind of a fix on what you think the government cost should be, a la the present 36%. There has been a lot of stuff before that has come up that should be matching, not to exceed 22%, and all the rest of that, but are there other parameters under which the research people, the Congressional Research Service, are going to be working on them, in terms of the extent of the options would they be in a certain framework?"
Answer: That is right. Much of it depends on the work of the GAO and the data, because the data will project what we actually get. What I think most of us that are doing to work are interested in is trying to provide a system which is fairly comparable to some of the larger firms in the country. The cost is going to basically explain what........

Question: I wondered at what point you might reach that because that is where you could start getting the first real guidance, aside from your forums, from you, for instance, whatever you are ready to make available to the full public, public.
Question: You will have a sense for that Julyish kind of time frame, won't you, in order to meet the gross schedule you talked about?

Answer: I think we will have the options mapped out probably by May that we are looking at.

Question: The other question I had is that in looking at, you mention the FBI and some of the others, and as you went on, a lot of these things, FBI circumstances where you have your student pay for special people in civil service, were you planning to address those within your package of special provisions. In other words, you are talking actually from an evaluation point some higher benefits for those kinds of people than our CIA system even with their 1/2% they are kicking in, you know, 7 1/2% I am talking existing..... ..up here with a fear....Even the hazardous duty in the Bureau, when the total value is 2 1/2% ...., I just wondered if whether you are already addressing those or are going to be getting into that. I realize that you are early on,............

Answer: When we designed the Senator's original package that he put in a year ago, our position at that time was that we would treat everybody alike and let the groups come up and prove to us why they should be treated uniquely. We may take a different tack this time, and possibly automatically treat those people that are being treated uniquely now, uniquely. But we have not focused on how we are going to treat them yet.

"One last question -- In reference to looking into private industry, as your base line more or less, you know, see what they are doing, as you say some features of the program probably are going to look more like private industry than the old, historical government system, are you looking at the total compensation package as part of your base again. Answer: That is a good question. I talked about it a little bit at the breakfast we had. One of the things, yes we are looking at that. How we are going to address it is that the Senator has asked us to begin looking at and preparing legislation on every issue of employee pay and benefits. So the possible goal would be is when we put in a retirement bill, to have separate bills in on pay, life insurance, health insurance, leave, and some of the other things, so that, they won't be merged into one bill because that bill would never move in a million years, but at least it would all be out there, so that the retirement issue would be discussed in context with all the other packages, so that that issue can be resolved, because there is no question that in some of the benefit areas we are far behind the private sector, in others we are comparable, in some like retirement, we are probably a little bit ahead.

Question: In a related kind of vein we have talked about retirement, and retirement, and retirement. I am not aware that I have heard any discussion on the disability side of the civil service retirement and disability system. How are you all planning to address disability?"

Answer: We have not focused on all the GAO data which has not come back. What is interesting, is that the way the government operates now is actually far different than most private firms operate. We have a retirement program which has a disability retirement benefit which is pretty small. Unless you have worked for the government for 20 years you are in pretty bad shape, if you go out on disability retirement. Then, everything under disability retirement is taken care of by sick leave. Most firms provide a long term disability policy, almost like a life insurance concept. That is what most firms do. What we did, in the bill that the Senator introduced a year ago, we built the long term disability insurance into that. We got killed on it because if we tamper with sick leave, everybody was going wild. While we tried to explain to the employees you would be better off without accumulating sick leave and with the disability insurance because, particularly in the early years if you get hurt, if you do not have accumulated sick leave, you are out the door. You do not have anything. We said this will protect you up to two years. We got more letters on that sick leave issue, we got blown out of the water. We have not focused on it yet, but my guess would be that we will probably again treat it like the private sector and have some kind of disability insurance concept. In disability in the private sector, they usually,.. the bottom line is 60% of salary during that period, for many years and if you go out on disability retirement, the maximum you can get presently in government service under 20 years is 40% of your salary. Forty percent of your salary, if you are permanently totally disabled, and you are not under Social Security like the civil servants weren't, you do not have anything. So, in private industry, they are way ahead in as far as disability insurance goes. We are going to try and build that in.

Answer elaboration by Wayne Schley (Sen. Stevens staff director on the Governmental Affairs subcommittee): I would like to emphasize something that Jamie mentioned and we have been trying to do it, when you are working with Ed Hustead and devising your system I want to re-emphasize to work with us so that we can fit it into our plan. What happens to your system if you are out there by yourself, like Jamie sugguested you not be, the same things happens with retirement as the sick leave provision happened with the retirement bill Jamie was just telling you about. When you get ready, talk with us. We are not saying that we are going to change your system or anything, but we might be able to smoothe some rough edges. My role comes in after Jamie has worked out the system. Jamie is the pension expert in the Congress. I work with Jamie in order to get it through Congress to the Administration, reaction from the public, and so forth. It is not an easy job. A perfect example is the disability section, opponents of our bill zeroed in that we were taking away sick leave and that is all we heard about through letters and phone calls. It was such a minor portion of that bill; it was totally misconstrued, and that is what we do not want. We do not want to be separated. You do not want it to be misconstrued or you are dead in the water. But selling something to the taxpayers is most difficult because everybody complains that somehow things start getting less than what you are and they are paying your salaries and somehow it just grates them. They may be, in many cases, totally wrong in their perception but, you have to deal with the perception.

Question: Can you say a little bit about how your arrangements from all this from your alls point of view impact upon our hiring and retaining high quality people and competition in private industry for them?
Answer: We did just a little bit at the breakfast. There is going to be a real problem. To give you an interesting example of it. Jerry Rossaw heads up the Advisory Committee on Federal Pay. He just spoke recently and said that the government is no longer able to recruit at the better universities in this country. Particularly in some agencies like this, in some specialized agencies where you are really dependent upon getting top quality people, like NASA, ...working in western union when satellites went off. Seventy-five million dollars floating around for later spaceships to find. That is the last thing you hear. I can

imagine, an intelligence satellite you send up there and the shuttle puts it out and it goes up 750 miles miles off the earth rotating in some kind of crazy orbit. It is the last thing you need, and yet, maybe we should not have a western union compensation policy. We definitely have a very serious problem. Our analysis shows that particularly in specialized areas, we are really in trouble. We are really behind private industry, as far as the compensation package. We are trying to increase incrementally increase it as best the Senator can, but we are going against a wave right now; anti-government so to speak and particularly with the deficit. Trying to increase it now, the problem is one of the issues I worked on with the Senator is Members pay, which is very much related to this. There is never a good time to increase Members pay. There is always something going on. Five years ago it was rampant inflation, so we had to hold down Members pay as an example for the rest to the rest of the country that we had to cut out wage inflation, so to speak, and to give you an example we are not going to give the Members pay increases. Then came unemployment. We cannot have a pay increase now because unemployment is so high and all these poor workers are out of jobs. Now, the last pay increase that the Senate just rejected for itself, you had to show an example of the country to control the deficit by cutting out Members pay. Members pay, I think the total was going to be about $350,000 this year at 3 1/2%, that was the impact on the federal deficit of $200 billions, that was a real impact. But it is the same issue when it comes to federal employees compensation. There is always something that is raised as an issue to hold it down and now we are at a point where we are definitely in trouble with some of these industries and where there needs to be increases in certain areas, now, not for perception, but for budgetary factors, it is going to be very hard to do anything. My only hope is that as we move the retirement package through, maybe some tradeoffs can be arranged in which, that is why I feel hopeful putting all of these various bills in it maybe some trails can be arranged for maybe somewhat of a less generous retirement program, some of the more current dollar values of benefits like health and pay can be increased to offset some of the lesser value retirement..... . Right now the government has too much of an emphasis on deferred compensation now as it is. In other words, too much benefit down the line and not enough now. There really needs to be in order to make it competitive with private industry, there needs to be somewhat of a reversal of that.